



Indigenous economic development policy: A discussion of theoretical foundations

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**Paper presented to the Social Change in the
21st Century Conference**

**Centre for Social Change Research
Queensland University of Technology**

28 October 2005

Indigenous economic development policy: A discussion of theoretical foundations

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Abstract

Current media attention on policy about Indigenous people has largely focused on the plight of rural and remote Indigenous communities and has centred around two main areas: land and economic well-being. The second dimension defines the Indigenous person as an economically rational being seeking to maximise individual benefit and share costs across the community. Policy options based on individual wealth maximising behaviour and rational self interested actions may serve to explain economic growth in the dominant culture of developed countries but is less useful in other contexts. We argue that assumptions inherent in capitalist policies are unlikely to mesh with traditional Aboriginal settings.

Capitalist enterprises establish labour contracts founded on notions of individual self interest that may conflict with cultural community responsibilities and expression of identity. Individual identity in community and connection to place may undermine the motivational assumptions of free market solutions. Where norms and social interactions are important policy options should explicitly consider ownership structures and property relations.

Cooperatives as a form of organisation offer the potential for economic development initiatives to align with the sociological and citizenship features of Indigenous communities. We propose that business can be structured so that it meets collective needs, operates to develop a competitive advantage from its cultural base, and competes in a western socio-economic dominant market. Explicit consideration can and should be given to the culturally evolving landscape in remote Indigenous communities. Policy alternatives incorporating traditional conceptions of citizenship offer some prospect for discontinuing colonialist legacies.

Keywords: Cooperatives; Indigenous organisations

Introduction

Social, economic and cultural factors contribute to less equitable outcomes and concomitant social problems amongst Indigenous people in Australia. Indigenous people suffer across the spectrum of indicators collated in the COAG [Steering Committee for the Review of Government Service Provision (SCRGSP)] report (2003). "They confirm that disadvantage is broadly-based, with major disparities between Indigenous and other Australians in most areas" (Banks 2003, p4). The SCRGSP report (2003) highlighted the interdependence of family and cultural identity with child development and wealth creation (Figure 1, pXXI). The report identified the multi-causality of outcomes as a key problem for measuring policy effectiveness, yet the key economic policy outcomes maintain a traditional approach in a segregated manner, overlooking the implicit interconnectedness. Promoting economic independence implicitly involves health, education and economic facets. Fielding (2002) explored the nature of the causality between sectors such as health, education and economic indicators, finding that linkages flow in both directions through a range of sectors.

Limited recognition of Indigenous interests has resulted in land resource transfers, largely in remote areas. The economic potential of such areas is constrained by geography. Granting control of land capital to traditional owners might lead to local economic activity if there were reinforcing conceptions of individual property rights. Indigenous sense of community and partnership with place may not be conducive to entrepreneurial activity based on natural resource exploitation, the traditional remote area economic development activity.

The form of organisation inherent in economic development policies also merits discussion. Martin (1995) describes the policy challenge of developing Indigenous enterprises as realisation of commercial and social viability, the enabling of distinctive Aboriginal values to persist. These values encompass work practices, relations, hierarchy and authority.

This paper will firstly examine the practicalities of popular themes in Indigenous development. Then, the potential foundations for Aboriginal economic development policy will be reviewed. The limitation of excluding culture from economic policy may limit the effectiveness of policy options. Dean's (2003) taxonomy is used to examine citizenship and sociological dimensions. These dimensions highlight why assumptions inherent in capitalist policies are unlikely to mesh with traditional Aboriginal beliefs, possibly a binding constraint to economic development. Finally, a preliminary application of culturally sensitive economic development policy to the form of organisation is examined.

The Australian context

There has been much recent media attention on government policy in relation to Indigenous peoples. This policy debate has been largely focused on the plight of rural Indigenous communities and has centred around two main areas: land and economic well-being. The fundamental assumption behind Australian Indigenous policy-making, that land reforms will create beneficial social outcomes, has not changed in these recent debates. The new dimension is seeking to define the Indigenous person as an economically rational being who seeks to maximise individual benefit and share costs across the community. The argument is that because Indigenous lands are collectively held that individual entrepreneurship has been stifled with the resultant health and social problems compounded by poverty (Hughes and Warin 2005).

The idea that there has been a general failure in policy to serve the needs of Indigenous peoples has resulted in a sustained attack on policies related to land tenure and Indigenous peoples. In this regard the *Native Title Act 1993* and the *Aboriginal Land Rights (Northern Territory) Act 1976* have been criticised for failing to deliver economic opportunity. The argument is that these land laws do not deliver free hold title to individual Indigenous peoples and therefore entrepreneurship among communities is not encouraged. For example Hughes and Warin (2005) suggest that it is this stifling of entrepreneurship that leads to a failure of Indigenous communities to engage in the mainstream economy. Mundine (2005) also complains about the squandered opportunity of Indigenous land ownership. John Daly, chairman of the Northern Land Council, advocates greater utilization of land rights lands in order to break welfare dependency but suggests that the development of markets rather than the modification of tenure arrangements is the way forward (Ashleigh 2005). Arguments about the privatisation of land rights land have mostly focused on residential housing / home ownership on Indigenous lands rather than extensive property rights reform.

Indigenous lands cover a substantial amount of continental Australia. There are significant differences between land rights and native title lands and between different land rights regimes. Native title is not a form of title, rather once determined it is a set of co-existing rights. For the most part native title has the potential to exist over conservation lands, unallocated government lands and pastoral tenures and therefore native title potentially covers about 75% of Australia. Any economic development benefits for Indigenous peoples on these lands will most likely be in cooperation with the underlying tenure holder or as a result of mining negotiations.

The variable nature of land rights regimes is also a limiting factor. A substantial amount of the Northern Territory land rights land is former pastoral lease (much of this land is marginal country for pastoralism) while almost all of the Queensland Aboriginal Land Act land is either national park (approx 50%) or land that had already been set aside for Indigenous purposes (DNRM 2005). Consequently there are productive constraints. Debate about the use of Indigenous lands will need to take into account their location, the physical condition of the land and climatic factors, as well as the tenure of the land.

Economic foundations of policy

We explore the basis of development policy to examine the applicability of key assumptions such as the dominance of individualistic motivations. The human rights approach to development is canvassed along with macroeconomic policy themes and finally microeconomic policy elements.

The United Nations has been a forum where less developed countries have argued for a right to development. Sengupta (2002) describes the right to development as relating to a manner of implementation of development policies that is participatory, transparent, non-discriminatory and accountable with a fair and equitable distribution of benefits (p 873). Furthermore, it is the right to a process that expands the capabilities or freedom of individuals to improve their well-being and to realise what they value (p 868). Examining the right to development brings to light process and culturally based issues as an inherent part of policy discussion.

Perceptions of economic disparity by prosperous countries are framed in terms of the dominant paradigm. For example aid usually involves policy prescriptions based upon assumptions regarding efficient markets, macroeconomic stability and supportive institutions (Roberts 2004). These prescriptions are based on the notion that growth

requires opportunity and acts of entrepreneurship by numerous actors working in the framework of market economies, which are facilitated by institutions that create and sustain business confidence and property rights.

Recent analysis of development policy concludes that expenditure has to be efficient, appropriately focused, and sensitive to local conditions and the constraints on intended beneficiaries (Roberts 2004). This appears rational as focusing on the relaxation of the binding constraint is expected to yield the largest results. The difficulty may be that the binding constraint in particular situations may involve culturally based factors, resulting in continued perpetration of discrimination.

Examination of how growth occurred within developed countries is used to formulate theory. The generally accepted neo classical description is that fostering entrepreneurial activity, expanding capacity, employing new technology, producing new products, searching for new markets, etc. has resulted in growth, and therefore should in other contexts. As entrepreneurs become energised, capital accumulation and technological change generate self propelling cycles of development (Rodrik 2004). To replicate such results the problem becomes one of how to crowd in investment and entrepreneurship with positive inducements (Hausmann, Rodrik and Velasco 2004).

The micro-economic level approach focuses on the industrialised concepts of clusters and externalities to facilitate economic development. Agglomeration of economic activity is taken to reflect circular reinforcement based upon initial demand.

“Whatever the reason for the initial location of a cluster, once a pattern of specialisation is established, increasing returns set in and the pattern of specialisation becomes ‘locked in’ by cumulative gains from trade.”

(Helmsing 2001, p 279)

Externalities of the industrial atmosphere also include the network of conventions, rules, common understandings in a cultural and socio-economic environment (Lawson 1999, p 159). The Aboriginal traditional culture does not share these common understandings which may impede development. Dasgupta (2002) acknowledged that social networks can block the growth of markets. In this social interaction, relationships are of central importance (Lawson 1999, p 157). Therefore, a different set of economic policies may be required for remote area economic development where these conditions are prevalent.

Norms are likely to be important at the microeconomic level of Aboriginal economic development policy. North (1989) describes how norms at the microeconomic level, the structure of rules and enforcement are transaction costs. Similarly Hobbs (1997) defines transaction costs as including negotiation and monitoring processes. Instead of reinforcing economic actions, Kherallah and Kirsten (2001) describe how the institutions, the formal rules of behaviour that are taken for granted in developed economies and that facilitate market exchange are absent in low income countries.

Economic policy options based on individual wealth maximising behaviour and rational self interested actions may serve to explain economic growth in the dominant culture of developed countries but be less useful in other contexts. The way in which culture may influence policy is explored and then a potential policy application is examined.

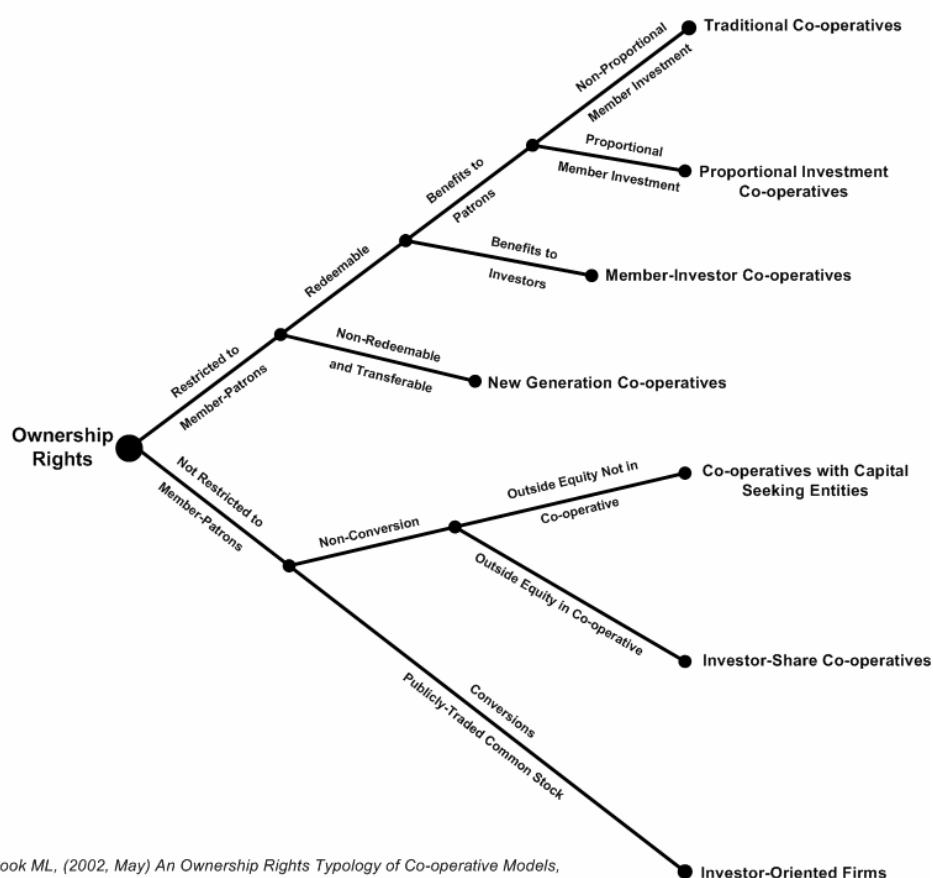
Culture and Form of Organisation

The operations of capitalist enterprises establish labour contracts founded on notions of individual self interest that may conflict with cultural community responsibilities and expression of identity. Dean (2003) presents a framework which identifies social and cultural aspects. We identify how different business models may fit within these

Cooperative

The cooperative is an autonomous association of persons united voluntarily to meet their common economic, social or cultural needs through a jointly owned and democratically controlled enterprise (Staatz 1984). There are a plethora of different cooperative models and structures in operation highlighted by Chaddad and Cook (2002). Chaddad and Cook (2002) used an ownership rights perspective (figure 2) to synthesise work by Grossman and Hart (1986), Schrader (1989), Collins (1991), Milgrom and Roberts (1992), Cook (1995) and Plunkett and Kingwell (2001). As ownership rights move from traditional structures towards investor-oriented firms the more contractarian they become.

Alternative Co-operative Models: an ownership rights perspective



Source: Chaddad FR, Cook ML, (2002, May) An Ownership Rights Typology of Co-operative Models, Agricultural Economics, University of Missouri press.

Figure 2: Alternative co-operative models

Rokholt (2000) argues the strength of cooperatives is in the loyalty dynamic. The group/community dynamic reduces risk by collective sharing to overcome the adverse economic conditions that inhibit individual actions. This finds support among social science researchers (Dodgson, 1993; Kotter, 1996) and the cooperative organising field (Zusman, 1993; Torgerson, 1997; Nes, 1998, Rokholt, 1992, 1999). Traditionally based loyalty is a product of social process that is culturally and socially supported and enforced. The organisation is seen as part of the implementation of group strategy based on historical (cultural) experiences and a continuous evaluation of the situation.

The cooperative then allows for engagement with the economically dominant sphere of individual ownership rights in contrast to cooperation within the community. A collective culture traditional business can meet the needs of its traditional collective base as well as operate and compete in a western socio-economic dominant market.

Prospective policy

The importance of norms and interactions indicates that the form of organisation might be considered with regards to such transaction costs. Where transaction costs are important efficient policy options should consider ownership structures and property relations. Distinctive cultural values and systems lead to potential disutility to participate in entrepreneurial activities as assumptions of self-oriented motivation reflect conflicting priority of individual values over cultural identity and relationship to family.

Altman (2002) recognized that if an innovative approach is to succeed it needs to ensure that the issues that have plagued Indigenous businesses are addressed, the main being governance problems, lack of main-market stream financial institutional support and experienced and skilled mentors and facilitators from the dominant market businesses. Altman also suggests there is a need at the national level for greater collaboration between existing Indigenous institutions, building alliances with mainstream businesses especially financial institutions.

Altman (2002) and Martin (2003) recognize that cultural and traditional characteristics of Australian Indigenous people need to be not only taken into account but absorbed and blended into any business model approach to Indigenous economic development. Martin et al. (2002) discuss the need for a model that blends the two or allows an integrated mix to accommodate the traditional collective/ community user member dynamic with the investor oriented dynamic of the dominant market society. Martin (2003) stipulates that policy in respect to development must acquire an attitude shift towards seeing Indigenous culture as creating a strategic differentiation from social-dominant economic market competitors and not as a disadvantage. Martin (2003) also sees a necessity to develop models purely on commercial endeavors that meet the western market ideology of individual ownership rights and agency theories. Martin (2003) suggests that the political and social norms must be left to the informal and can not be codified within the formal workings. We suggest that such problems are fundamentally in opposition to the theoretical bases of free market policies. Explicit consideration can and should be given to the culturally evolving landscape in Indigenous communities.

Conclusion

Policy for Indigenous economic development with specific attention to the role of culture is examined. This paper identified some of the theoretical foundation issues in policy design. Economic development policy for remote and very remote Indigenous communities must be sensitive to cultural differences. Explicitly accounting for cultural influences is the start of realising a right to development for Indigenous Australians. In particular, how individual identity in community and connection to place may undermine the motivational assumptions of free market solutions and affect Indigenous enterprise performance. Cooperatives can be designed to accommodate specific concerns such as property ownership, title and individual self interest.

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